

USAID's Approach to Poverty Reduction

The Case of Honduras

Summary

Honduras, one of the poorest countries in Latin America, has been focusing on strategies to reconstruct and transform its economy after the devastating impact of Hurricane Mitch in 1998. In 2001, the government completed a Poverty Reduction Strategy Paper (PRSP) in response to the World Bank and International Monetary Fund's heavily indebted poor country (HIPC) initiative. USAID Honduras has operated a program of about \$31 million annually, excluding an emergency supplement of \$293 million provided by Congress after Hurricane Mitch. The mission's program emphasized, in order of funding importance, health and education, economic growth and natural resource management, decentralization and municipal government, and democratic governance. Annually, over half of the regular assistance monies in the portfolio are allocated to the delivery of health and education services to poor people. Two-thirds of the Hurricane Mitch reconstruction program was allocated to the improvement of key physical infrastructure.

This assessment examines the USAID Honduras portfolio through the lens of the Evaluation Studies Division's conceptual framework for comparing USAID's sustainable development approach with the poverty reduction paradigm evolving in the World Bank, IMF, and other development aid agencies. However, poverty reduction is not USAID's overarching goal. This assessment asks whether USAID is nevertheless engaged in poverty reduction programming, and whether it has modified its assistance strategy to be consistent with the PRSP approach. It also asks whether USAID Honduras has supported the PRSP process, and whether the mission can enhance the poverty reduction impact of its portfolio. The assessment finds that in most respects

KEY IDEAS

- A high level of donor coordination is important to poverty reduction efforts. It can promote structural change, facilitate policy reform, and improve the quality of debate on such issues.
- Without institutional and policy reform, little economic growth can take place. Though USAID Honduras has focused on achieving poverty reduction through economic growth, the mission's spending has been heavily oriented toward social service delivery. Congressional earmarks contributed to increased allocations for such activities, while the Agency's results management approach fostered projects with short-term, measurable results.
- Selecting and tracking indicators that directly measure the social and economic dimensions of poverty would help USAID to understand more fully how its activities contribute to poverty reduction. Including an "impact on poverty" section in R4 narratives and related reports would assist the task.
- Poverty reduction strategies in Latin America should give high priority to strengthening the human capital of poor households and increasing their access to infrastructure and assets that improve their entry to markets and lower their transaction costs.



USAID's focus on broad-based sustainable development works effectively as a poverty reduction approach.

More specifically, the assessment team finds that

- USAID Honduras is one of the few Agency management units that comes close to adopting poverty reduction as its overarching goal. The mission maintained a strong emphasis on economic policy reform, though over half of its portfolio supports the direct delivery of social services.
- USAID's program is well focused on the poor, especially in health and education, and incorporates many poverty reduction objectives. The economic growth portfolio includes microenterprise initiatives that provide a safety net to smooth the consumption of the poorest. The municipal development and decentralization program focuses on establishing new services in poor neighborhoods and supporting grassroots community groups. USAID also provides key support to the country's nascent civil society sector.
- Honduras needs additional policy and institutional reforms in many areas, particularly in public sector salary policy, rule of law, and modernization of the state. However, the mission's portfolio is heavily skewed toward delivery of services, mainly due to congressional earmarks and the USAID results management system. Earmarks make it difficult for program

officers to balance direct and indirect approaches to poverty reduction and resolve inconsistencies between funding availability and program needs. The results management system requires project managers and program officers to provide quantifiable measurements of the results of activities on a six-month or yearly basis. The system is thus biased against longer-term policy reform programs.

Honduras needs additional policy and institutional reforms in many areas, particularly in public sector salary policy, rule of law, and modernization of the state.

- USAID played a key leadership role in the development of the Honduras PRSP. While most of the missions analyzed for this series modified their programs in response to PRSPs, the Honduras PRSP adopted many of USAID's programming goals. USAID played a critical role in focusing the donor community and civil society on the PRSP process. Allocating funds to support the process, USAID further influenced and shaped the PRSP in sectors where it had a successful track record, notably, in democratic governance and decentralization, and health and education. USAID also successfully promoted the inclusion of economic policy reform and anticorruption concerns into the PRSP document.
- Key to successful USAID involvement in the PRSP has been the high level of donor coordination achieved in Honduras. Important factors were the leadership of individuals in the U.S. country team and the donor community, the impact of the special circumstances of hurricane reconstruction on the preparation of the PRSP, and the willingness of the Honduran government to engage in a collaborative dialogue with donors.
- The recent Honduran experience illustrates the

PREPARED BY

Jonathan Sleeper, Team Leader
PPC, Evaluation Studies Division

Clarence Zuvekas
Management Systems International

J. Michele Guttman
Management Systems International

John Thomas
Management Systems International

importance of regarding poverty as a multidimensional concept. While income-based poverty indicators show little improvement since 1990, some social indicators—especially those for health status and access to potable water and sanitation facilities—show significant gains. This improvement in the human capital of poor Honduran households will enable them to achieve higher income levels over the long run. However, successful achievement of sustainable growth will require major legal, institutional, and policy reforms.

Background

The World Bank, IMF, UN agencies, most bilateral donors, and many developing countries have now made poverty reduction their overarching development goal. For HIPC, debt relief is linked to the development of a national PRSP. The multilateral development banks regard the PRSP as the country's focus document that each member of the international donor community is expected to "buy into."

Successful achievement of sustainable growth will require major legal, institutional, and policy reforms.

Despite international commitments by the U.S. Government to poverty reduction, USAID's guiding principle for development assistance remains sustainable development. Poverty reduction is not an overarching goal; rather, it is an important and desirable outcome of sustainable development.

What Is a Poverty Reduction Approach?

A poverty reduction approach makes the reduction of poverty the explicit, overarching goal of a development agency. Program interventions are designed around an analysis of who the poor are, where they live, and what they do for a living. The approach also examines whether the poor are net buyers or

sellers of food, labor, and services; what economic and social problems they face; and the risks to which they are most vulnerable.

There are conceptual differences between USAID's sustainable development approach and the new poverty reduction approach.¹ In comparison to a sustainable development approach, a poverty reduction approach

- has poverty reduction as an overarching goal
- pays greater attention to the measurement of the specific poverty reduction impact of various interventions
- gives greater priority to health and education services targeted to the poor
- gives mixed priority to economic growth; openness to trade, investment, and information flows; and agriculture
- gives greater attention to the explicit empowerment of the poor
- is strongly concerned with mitigation of risks faced by the poor (vulnerability)
- places greater emphasis on public sector institutions as partners, as opposed to nongovernmental or private sector organizations
- places greater emphasis on direct interventions that target the poor as immediate beneficiaries, and less on indirect approaches that emphasize broader economic or policy environments
- is concerned with the coherence between development and nondevelopment policies pursued by the United States and other OECD governments

¹ Lynn Salinger and Dirck Stryker, *Comparing and Evaluating Poverty Reduction Approaches: USAID and the Evolving Poverty Reduction Paradigm* (Cambridge, MA: AIRD/CDIE, 2001) PN-CAN-169.

About This Study

This assessment is one of four country case studies examining how USAID missions operate in countries where governments and the donor community have shifted to the poverty reduction focus. The purpose is not to evaluate USAID's performance, but the extent to which the Agency has an effective poverty reduction approach—even though poverty reduction is not its overarching development goal. The assessment examines USAID's participation in the development of the PRSP in Honduras and whether it modified its approach as a result. This analysis aims to provide insights into the Agency's development strategy in countries that are focused on poverty reduction.

The assessment asked the following questions:

- Is USAID pursuing a different program strategy in a country such as Honduras that is pursuing a poverty reduction strategy?
- To what extent is USAID's approach consistent with a poverty reduction approach?
- What is USAID's relationship to the country's PRSP process?
- How have congressional earmarks affected budget allocations? Have they helped or constrained the implementation of a poverty reduction approach?

The assessment team comprised a team leader from the Evaluation Office of USAID's Bureau for Policy and Program Coordination, an economist, a public health specialist, and a democracy expert. The team conducted interviews with staff of USAID Honduras and with representatives of the Government of Honduras, other donor agencies, and international financial institutions in Honduras. The team also interviewed contracting and cooperating partners of USAID and other knowledgeable individuals.

Recent Developments in Honduras²

Economic Growth Trends

Honduras, one of the poorest countries in the Latin American and Caribbean region,³ has a long history of slow economic growth. Occasional brief spurts of strong economic performance have usually coincided with high prices for coffee or bananas. Per capita GDP declined during the “lost decade” of the 1980s, but the decline was less than elsewhere in Central America because of massive inflows of U.S. economic and military assistance. This high level of assistance kept the exchange rate stable and inflation low, but it also allowed Honduras to incur large fiscal deficits. These proved to be unsustainable once U.S. assistance began to fall, as the civil wars in neighboring countries wound down in the late 1980s and early 1990s.

In June 1990, Honduras reached an agreement with its international creditors that allowed it to clear debt-service arrears of approximately \$250 million. As part of this agreement, the government initiated major economic reform that included a devaluation of the lempira, eventual adoption of a controlled float based on an auction system for foreign exchange, trade liberalization, the elimination of most interest-rate and price controls, and the adoption of a broad agricultural modernization law.

Macroeconomic policy has been fairly good since then. Annual inflation was reduced from nearly 30 percent in 1995 to about 7 percent in mid-2002. The exchange rate experienced some real appreciation, but the Central Bank's controlled float of the

² This section draws on Clarence Zuvekas Jr., “The Honduran Poverty Reduction Strategy,” paper presented at the 23rd Annual Meeting of the Middle Atlantic Council of Latin American Studies, Newark, Delaware, 15–16 March 2002.

³ According to the World Bank's *World Development Indicators*, in 2000 Honduras had a per capita GDP of \$924 <www.worldbank.org/data/countrydata/countrydata.html>. Within the Latin American and Caribbean region, only Haiti and Nicaragua had lower figures. However, Honduras ranks higher within the region on some health and education indicators, and has achieved close to universal vaccination of children against the major childhood diseases.

nominal exchange rate has been widely accepted by the business community. The fiscal deficit has generally been kept within reasonable bounds. However, sharp increases in public sector salaries, especially for teachers and medical professionals, remain a matter of concern.

The improved economic policy environment in the 1990s contributed positively to economic growth. Prior to Hurricane Mitch, GDP seemed headed for an average annual growth rate of about 4.2 percent, or close to 1.5 percent per capita.⁴ The devastation caused by the 1998 hurricane lowered average growth for the decade to 3.2 percent, or 0.5 percent per capita. The GDP growth rate in 2001 is estimated to have been only 2.6 percent, reflecting the country's vulnerability to natural disasters (drought) and unfavorable world economic trends such as depressed coffee prices and the U.S. recession. A somewhat lower growth rate was expected in 2002.

However, it is worth noting that actual GDP growth in the 1990s was probably somewhat higher than the reported figures. This is mainly because maquila or assembly production—mostly of apparel—is underestimated in the national accounts. Value added by the rapidly growing sector grew from an estimated \$10 million in 1990 to \$662 million in 2000. Honduras is now the leading Central American exporter of apparel to the United States.

Political Trends

Like many other Latin American countries, Honduras has a history of frequent, irregular changes of government, with the military often playing a strong role in governmental affairs. However, the last 20 years constituted a major break from this pattern. Honduras began its democratization process in 1981. Elections have been held every



Hurricane Mitch caused an estimated economic loss of \$3.8 billion to Honduras. About two-thirds of \$293 million in emergency supplemental funds allocated to the reconstruction effort was spent on critical social and economic infrastructure for poor people. Rather than service delivery, the reconstruction program emphasized economic growth.

four years since 1981, and most have been characterized by a relatively high degree of fairness. The two major political parties have alternated in power. The political influence of the military has declined steadily since the mid-1980s. The participation of women in government has exhibited mixed trends and remains especially weak in the legislature. In February 2001, seven women were cabinet ministers or in cabinet-level positions, but these advances do not appear to have been sustained.

Civil society organizations in Honduras have been subject to less repression than in some other Central American countries. They have been gaining strength, overcoming some past institutional weaknesses and fragmented efforts. Although few could be considered strong, civil society organizations have increased their collective efforts since Hurricane Mitch and have gained a growing voice in public policymaking.

Notwithstanding these and other positive steps, Honduras still suffers from weak judicial and legislative institutions, an inefficient executive branch, and widespread corruption. The country has begun to address corruption, in part because of growing pressures from the international community and Honduran civil society. Honduras's ranking by Transparency International has slowly improved—

⁴ Though a GDP growth rate of 4.2 percent is not especially impressive, this figure exceeded the average for the Latin American and Caribbean region during the 1990s.

rising in 2001 to fifteenth among 18 Latin American and Caribbean countries and tied for seventy-first out of 91 countries worldwide.⁵

Trends in Poverty and Income Inequality

The Honduran PRSP explicitly treats poverty as a multidimensional concept, reflecting an international consensus.⁶ A broad definition of poverty is important for policy purposes, as such a definition makes clear that a focus on economic growth and rising average incomes does not attack all the root causes of poverty. Though this focus is essential for long-run poverty reduction efforts, non-income dimensions of poverty and income inequality are also important considerations.

Still, income-based measures of poverty are an appropriate starting point. A series of Honduran poverty indicators, based on multipurpose household surveys, has been available annually since 1991. At first glance, the figures seem to show a significant reduction in the incidence of poverty—from 74.8 percent in 1991 to 64.5 percent in 2001. The actual reduction was probably significantly less. First, the high 1991 figure was likely to have been a temporary spike reflecting the release of repressed inflation in 1990, when the lempira was devalued and price controls eliminated or reduced. Second, the reported rise in real incomes after 1991 partially reflects improvements in the measurement of income rather than an actual increase.⁷

Extreme poverty—defined as insufficient income to meet minimum nutritional requirements—reportedly fell from 54.2 percent in 1991 to 47.4 percent in 2001. Extreme poverty thus reportedly fell less

than overall poverty, and the actual reduction was probably minimal. Extreme poverty in rural areas fell initially, but in 2001 it was slightly higher—60.5 percent—than the 59.9 percent rate in 1991.

Poverty in Honduras has also been defined in terms of satisfaction of a set of six basic needs: potable water, sanitary services, primary education, capacity of the household to provide sustenance (a combination of education of the head of household and employment), housing space (no overcrowding), and housing quality. When so defined, Honduran household surveys show greater progress in reducing the incidence of poverty.

The incidence of unsatisfied basic needs fell from 67 percent of households in 1990 to 48 percent in 1999. The percentage of households with two or more unsatisfied basic needs fell from 42 to 22 over the same period. The most progress occurred in education and the least in the two housing indicators. As with income-based indicators, these needs-based indicators show poverty to be greater in rural than in urban areas (58 percent and 37 percent, respectively, in 1999).

Nutrition indicators provide a mixed picture of recent trends. One disturbing set of data reports that the incidence of undernourishment among first graders, aged six and older, fell from 39.8 percent in 1986 to 34.1 percent in 1990, but increased to 40.6 percent in 1997.⁸ However, these data do not provide a clear indication of whether nutritional status actually deteriorated during the 1990s. The data are difficult to relate to other poverty indicators because nutritional status is determined largely by food consumption and health during the first few years of life. The data for 1997, the latest available in this series, thus probably more closely reflect conditions in the early 1990s.

Another set of data, from the USAID-supported Demographic and Health Surveys (DHS) carried out at five-year intervals, provides a more opti-

⁵ Transparency International, “The 2001 Corruption Perceptions Index” (Paris, Transparency International, June 27, 2001) <www.transparency.org/documents/cpi/2001/cpi2001.html>.

⁶ World Bank, *World Development Report 2000/2001: Attacking Poverty* (New York: Oxford University Press, 2001).

⁷ In making its own estimates of poverty, the World Bank has adjusted household survey income figures downward to bring their growth in line with GDP growth in the national accounts. However, to the extent that GDP growth is understated, the World Bank’s adjustments go too far.

⁸ República de Honduras, *Estrategia para la reducción de la pobreza (ERP)* (Tegucigalpa, August 2001), 10–11 <www.imf.org/External/NP/prsp/2001/hnd/01/index.htm>.

mistic picture of recent trends in nutritional status. These data show a steady improvement in the incidence of childhood malnutrition—from 43 percent in 1991 to 38 percent in 1996, and a further reduction in 2001 to 32 percent.

Income inequality in Honduras is higher than average for Latin America—which, as a region, has the greatest income inequality in the world. Estimates of the Gini coefficient of income concentration vary, but they are generally well above 0.50, which is considered high. A slightly declining trend in inequality was recorded between 1986 and 1996, though the 1996 figure (0.55) remained very high.⁹ Given research findings that the difficulty of achieving poverty reduction increases with greater initial income inequality,¹⁰ high Honduran Gini coefficients may help explain why modest economic growth in the 1990s did little to reduce the incidence of income-based poverty.

USAID and the PRSP Process

Honduras was declared eligible for debt relief under the HIPC initiative after Hurricane Mitch caused an estimated \$3.8 billion in damage to the country's economy. In the aftermath, the international donor community moved aggressively to help the government develop a reconstruction program and to provide a mechanism—known as the G-15 group of donors—for monitoring its implementation.

The donors established 13 sectoral working groups—including one on economic growth and poverty reduction—that began holding periodic meetings with government and civil society. These

groups began to monitor implementation of the PRSP once the reconstruction program got underway. Donors naturally transferred their attention to the PRSP, since its policy framework resembled that of the reconstruction program.

USAID was heavily involved in the PRSP working groups dealing with macroeconomic policy and poverty reduction, agriculture and natural resources, justice, decentralization and municipal development, education, health, and transparency and governance. The Agency also financed consultant services to the Ministry of the Presidency, which directed the preparation of the PRSP.

USAID's participation in the PRSP was characterized as having broadened the strategy's long-term vision and development content, including the recognition that poverty reduction measures should have priority over poverty alleviation activities.¹¹ When asked whether and to what extent the PRSP process affected USAID programming decisions, interviewees consistently indicated that the reverse occurred: the PRSP adopted many USAID programming goals. The effect of the PRSP on USAID programs was relatively slight because they already reflected goals and objectives consistent with poverty reduction.

USAID played a critical role, focusing the donor community and civil society on participating in the PRSP process. Further, USAID influenced and shaped the PRSP in sectors such as administration of justice and municipal development, where the Agency had a successful track record. USAID also influenced the incorporation of transparency and anticorruption objectives and indicators into the PRSP. The mission's involvement facilitated public discussion and debate to a degree that would not have occurred in the past.

Many representatives of other donors and Government of Honduras entities told the evaluation team that the United States played the most important leadership role among the donors. The

⁹ Quentin T. Wodon, *Poverty and Policy in Latin America and the Caribbean*, World Bank Technical Paper No. 467 (Washington, DC: World Bank, 2000), 39; Samuel Morley, *The Income Distribution Problem in Latin America and the Caribbean* (Santiago, Chile: United Nations Economic Commission for Latin America and the Caribbean, 2001). Data problems and other considerations suggest that actual inequality may be somewhat lower than the 1996 calculation, but the general picture of high inequality seems accurate.

¹⁰ World Bank, *World Development Report 2000/2001*, 55–57 and 123–24; Klaus Deininger and Pedro Olinto *Asset Distribution, Inequality, and Growth*, World Bank Working Paper 2375, <<http://econ.worldbank.org/docs/1128.pdf>>; Martin Ravallion, *Growth, Inequality and Poverty: Looking Beyond Averages*, Development Research Group, World Bank, November 16, 2001 <www.worldbank.org/research/growth/pdffiles/growth_inequality_poverty.pdf>.

¹¹ República de Honduras, *Estrategía para la reducción de la pobreza*, 55–56.

role of the U.S. ambassador was widely praised, as was that of several USAID officers. Government of Honduras officials were particularly impressed that senior USAID officers took the time and effort to attend civil society meetings in towns far from the capital.

The final version of the PRSP was accepted by the IMF and World Bank in October 2001. However, as of mid-2002, Honduras had not become eligible for full HIPC debt relief benefits because it had not fully implemented its poverty reduction strategy. A central problem was weak tax administration and insufficient control over public sector salary increases. Progress has also been slow on structural reforms, including privatization and modernization of the state. The change of government in January 2002 temporarily exacerbated these problems.

USAID Honduras’s Strategic Approach

Poverty Reduction as an Overarching Goal

USAID Honduras is one of the very few missions that come close to having poverty reduction as an overarching goal.¹² The Honduras program has maintained a strong focus on poverty reduction since at least 1996. Program documents—such as the strategic plans of 1996–98 and 1998–2003, and, more recently, the concept paper for the mission’s 2004–08 strategy—emphasize broad-based economic growth and poverty reduction rather than poverty alleviation. Interviewees representing the donor community, the Government of Honduras, and the private sector commented that USAID’s program was focused on poverty reduction through its policy and institutional reform efforts.

Beginning in the 1990s, the mission began to regard investment in the human capital of the poor

¹² According to keyword analysis of R4s submitted by 101 USAID management units for FY2001, only 11 use the words “poor” or “poverty” in the titles of their strategic objectives, intermediate results, or indicators. Only 14 did so in FY2002.

Poverty Alleviation vs. Poverty Reduction

While often used interchangeably, poverty alleviation and poverty reduction are not the same.

Poverty Alleviation	Poverty Reduction
Relieves symptoms	Attacks root causes
Short-run focus	Long-run focus
Transitory effects	Permanent effects
Consumption	Investment

as more important for reducing poverty. More recently, the portfolio added a very strong emphasis on health activities. This reorientation coincided with an increase in congressional earmarks for child survival and disease programs, and a reduction in funding for economic growth and policy reform across the Bureau for Latin America and Caribbean (LAC). While mission documentation still puts emphasis on economic growth and policy reform, in reality, the portfolio is now heavily focused on the direct delivery of social services to poor people.

Priority of Health and Education

Over half of the USAID portfolio is dedicated to health and education activities (Table 1). This proportion substantially exceeds the UNDP’s guideline that 20 percent of donor country programs be allocated to social services. It is therefore not surprising that USAID is the leader in the health sector. Health activities are well targeted to poor people, especially in rural areas. The program focuses on decentralization and sustainable services, providing a key intervention package of immunizations, integrated maternal and child health services, pediatric emergency care, nutrition education, and family planning.

The education portfolio is also relatively well targeted to poor people. About a third of poor young Honduran males are pressured to become income earners and drop out of school by the sixth grade. Thus, the major focus of the USAID portfolio is alternative primary education for illiterate adults

Table 1. USAID Honduras Operating Year Budget Obligations, FY1997–FY2001
(Five Years)

Strategic Objective		(\$000)	Percentage
SO 1	Economic Growth and Poverty Reduction	25,324	16
SO 2	Natural Resources and Biodiversity	13,032	8
SO 3	Sustainable Family Health*	74,295	48
SO 4	Democratic Governance	9,486	6
SO 5	Hurricane Reconstruction Program**	–	–
SO 6	Basic Education and Vocational Skills	12,319	8
SO 7	Effective Municipal Government	20,902	13
Total		155,358	100

* Of the \$27,000 Title II obligations, 80 percent are allocated to health programs and 20 percent to agricultural programs.

** Not included in total.

and youth, using interactive radio instruction. Half the beneficiaries are women, 80 percent of whom are mothers. USAID also funds other NGO-supported activities in vocational education.

Priority of Economic Growth, Agriculture, and Trade

The economic growth, agriculture, and trade program made up only 16 percent of USAID Honduras's regular portfolio (Table 1). Since the inception of the mission's strategic plan in 1997, the objective of the program has been economic growth that expands opportunities for the poor. However, except for its work with microenterprise and poor artisans, the program has little direct

focus on poor people or small farmers. Much of its work is concerned with demand-driven assistance to small and medium-sized businesses, and extension and marketing assistance for farmers exporting nontraditional products.

The program also supports policy advocacy and reform efforts at the national level. It links micro-economic growth to policy reform and poverty reduction by focusing on demand-driven enterprise, competitiveness, and awareness of the institutional environment affecting transaction costs. The program also connects its promotion of small businesses in secondary cities and rural areas with activities that build advocacy for specific policy or regulatory reforms that reduce transaction costs. One example is support for the administrative simplification law to permit more rapid registration of businesses. The program recognizes that expanded production increases the number of jobs, many at the low skill levels of the poor.

Democratic Governance and Decentralization

USAID is widely recognized by other donors and government officials as being in the vanguard in introducing programs in rule of law and decentralization. These two programs make up 19 percent of the total portfolio (Table 1). Anticorruption



Vocational training for school dropouts is an important component of USAID's poverty reduction strategy in Honduras.

activities became an important element with the monitoring of the Hurricane Mitch portfolio in 1998.

The Honduran justice system historically has functioned poorly and has failed to win the respect or confidence of citizens. Wealthy Hondurans have been able to manipulate or evade the system, while the poor have had no effective defense or recourse. Although aiding the poor was never a primary objective, USAID's rule-of-law efforts greatly strengthened the involvement of civil society in legal and judicial reform efforts, and have had direct as well as indirect positive impacts on the poor. These impacts have included

- establishment of an independent Public Ministry and specialized units to prosecute crimes and protect public rights—such as those related to consumer, anticorruption, and gender issues
- creation of a public defender's office to provide legal counsel and representation to indigent defendants
- revisions to the Criminal Procedures Code to protect individual rights and due process, reduce the incidence of lengthy pretrial deten-



Microenterprise programs commonly include loans to small sewing ventures. Such programs help reduce the vulnerability of poor people to economic downturns. USAID is by far the largest donor in this sector in Honduras, reaching over 100,000 clients in 2001.

tions of primarily poor defendants, and increasing transparency through oral public trials

- passage of a constitutional amendment that increases judicial independence

However, the mission has given relatively little attention to improving the enforcement of property rights and commercial contracts. In these areas, institutional strengthening can contribute indirectly to poverty reduction by accelerating economic growth.

The municipal development and decentralization program is strongly focused on poor urban areas. Activities include training of mayors, council members, and community leaders; promoting decentralization of government services; strengthening citizen participation in local government; and improving coverage of basic services, including establishment of new services in poor neighborhoods. The program also includes direct aid for training and capacity building of grassroots community groups working with local governments in poor neighborhoods.

Hurricane Reconstruction Program

Hurricane Mitch caused an estimated economic loss of \$3.8 billion to Honduras in October 1998. In 1999, Congress allocated \$293 million in emergency supplemental funds to support reconstruction. USAID programmed about two-thirds of these monies for critical social and economic infrastructure for poor people (Table 2). The remaining funds were used for a wide variety of activities; most were focused directly on poor families affected by the disaster. Rather than service delivery, the reconstruction program emphasized economic growth. Its funds were not burdened by earmarks requiring health service delivery, as in the regular program.

Of special note was the establishment of a concurrent audit facility in the Controller General's Office for the entire USAID-funded reconstruction effort. USAID also supported a program mobilizing civil society to push for accountability and transparency in government. Toward that end, civil society organizations were able to publicly disseminate the national budget for the first time, and

the results of reconstruction program audits were published on the internet. As a result of these efforts, observers judge the corruption was much less than in other Central American disasters. Access to information is needed to make demands and to create awareness of basic rights to public services. Transparency and accountability are key to improving the lives of the poor.

Monitoring the Impact on Poverty Reduction

Although the Agency had significant input in the development of poverty indicators during the preparation of the PRSP, USAID does not formally track the incidence of income-based poverty or any other comprehensive indicator of poverty such as unsatisfied basic needs or the UNDP's Human Development Index. However, as Table 3 shows, USAID Honduras does monitor some aspects of the poverty impact of its programs.

- Under Strategic Objective (SO)1, Access to Productive Resources and Markets, the number

of persons benefiting from microfinance and their capacity to repay loans provides indirect evidence of poverty impact.

- Under SO2, Watersheds, Forests, and Protected Areas, no indicator measures any aspect of poverty, although mission staff pointed out that well-implemented programs should create jobs for the poor and protect their land and other assets.
- Five of the six indicators under SO3 (health) directly measure some aspect of health status and can be considered as poverty indicators.
- None of the indicators for SO4, Rule of Law and Human Rights, measures any aspect of poverty; most are concerned with the efficiency of judicial processes.
- The three indicators for SO6, Education and Vocational Skills, do not distinguish poor from nonpoor beneficiaries.

Table 2. Hurricane Reconstruction Program Obligations, 1999

Infrastructure	(\$000)	Percentage
Rural and Urban Water and Sanitation	92,378	
Rural and Urban Road and Bridge Construction	49,890	
River Basin and Watershed Improvement	16,513	
Municipal Construction in Poor Neighborhoods	15,161	
School and Vocational Center Construction	7,850	
Subtotal	181,792	62
Other		
Agricultural Credit, Technology Transfer, and Policy Reform	47,193	
Emergency Housing Construction	19,173	
Vocational (Alternative Basic) Education	11,324	
Support to PVOs (Technical Assistance and Services)	14,622	
Microenterprise Lending	10,000	
Subtotal	102,312	35
Transparency and Accountability (Concurrent Audit)	8,294	3
Total	292,398	100

- Of the indicators for SO7, Municipal Government, only the indicator dealing with improved coverage of basic services can be considered a poverty indicator.

Why monitor poverty reduction impact? While most economic and social reforms may benefit the poor at least proportionally to the general popula-

tion, they sometimes have negative effects on some groups of poor families or benefit them less than proportionally. In an ideal world, with good data and adequate staffing and resources, USAID Honduras would track such differential effects. In practice, such tracking is rarely feasible. Still, USAID should be alert to the possibility that reform measures may not always have the desired

Table 3. USAID Honduras Performance Indicators by Strategic Objective (SO)

SO 1	<i>Expanded and Equitable Access to Productive Resources and Markets</i>	<ul style="list-style-type: none"> ● annual value of private sector investment ● percent micro- and small enterprises receiving financial services from USAID ● percent portfolio at risk less than 30 days
SO 2	<i>Improved Management of Watersheds, Forests, and Protected Areas</i>	<ul style="list-style-type: none"> ● area under conservation programs ● number of protected areas under improved management ● number of municipal government and rural communities with key personnel trained ● number of improved watershed management units at municipal level
SO 3	<i>Sustainable Improvement in Family Health</i>	<ul style="list-style-type: none"> ● percent quality rural water systems working ● percent children with adequate growth trends ● confirmed cases of malaria ● cure rate of treated tuberculosis cases ● HIV seroprevalence in commercial sex workers ● number of couple years of protection through reproductive health services
SO 4	<i>Strengthened Rule of Law and Respect for Human Rights</i>	<ul style="list-style-type: none"> ● number of criminal cases disposed of per judge per year in pilot courts ● number of Public Ministry cases successfully adjudicated by the court ● compliance with criminal case resolution timeframes for cases in pilot courts ● percent cases prosecuted and adjudicated by pilot courts ● progress in implementation of new criminal procedures code
SO 6	<i>Improved Opportunity to Obtain Basic Education and Vocational Skills</i>	<ul style="list-style-type: none"> ● percent primary education students passing grade levels ● number of graduates from vocational training centers finding employment
SO 7	<i>More Responsive and Effective Municipal Government</i>	<ul style="list-style-type: none"> ● number of small municipalities strengthened ● percent increase in municipal income ● number of participants in town meetings ● coverage of public services (sewage, etc.)

Source: USAID Honduras Results Review & Resource Request, April, 2001. This document did not provide annual indicators for SO 5 (Hurricane Reconstruction Program).

positive effects on poor populations and be prepared to take corrective measures when qualitative evidence suggests the need to reorient programs toward the poor.

Some USAID officers believed that establishing poverty reduction indicators is not within their program's "manageable interest." Though many indicators are informally monitored by mission staff, the feeling is that it is not necessary to formalize them. Another argument against doing so is that the mission has revised its performance indicators too often in recent years, thus making it difficult to track how well strategic objectives are met over the medium term. One approach to better poverty tracking may be to include an "impact on poverty" section in each of the SO narratives in the mission's R4 documents and related reports.

Reducing the Vulnerability of the Poor

Under the poverty reduction approach, reducing vulnerability emphasizes the establishment of permanent safety nets to lessen the impact on poor people of disaster, economic downturn, or incapacitation of breadwinners. USAID programs in this area are traditionally limited to microenterprise activities¹³ and P.L. 480 Title II humanitarian assistance. In Honduras, USAID spent about \$33.5 million over the five-year period—almost one-fifth of the program—on Title II food assistance and microenterprise lending programs that targeted the most vulnerable households.

The microenterprise program had an accumulated loan portfolio of \$32 million in 2001. It reached over 100,000 clients, 79 percent of them women. USAID is the largest donor in this sector, providing substantial additional assistance to microenterprise institutions in credit, organizational management, and training. The largest of these, COVELO, reports that 18 percent of its loans are for less than \$100.

The Title II program reaches nearly 60,000 individuals, or about 10 percent of the total population in

Lempira, La Paz, and Intibucá, the country's three poorest departments. In addition to food distribution to expectant mothers and those with those children under the age of two, the program monetizes about half the commodities to support agricultural extension, access to health services, strengthened local government, and employment generation. The Title II food distribution system supported by USAID can also respond quickly to natural disasters, as demonstrated in the response to Hurricane Mitch.

Role of Government

The poverty reduction approach explicitly recognizes the value of public services to poor people. The USAID program supports the provision of government services at both national and municipal levels, in some cases through direct assistance to the government. For example, USAID channels about \$13 million per year—roughly 40 percent of its annual portfolio—through the Ministry of Health, which provides the majority of health services in the country. This assistance supports a broad range of activities aimed at improving the delivery of health services to the rural and urban poor.

In the area of municipal development and decentralization, USAID has had a continuing and successful relationship since the mid-1980s working with local municipalities and related entities throughout Honduras to improve delivery of municipal services to poor people. Over the FY1997–2001 period, USAID allocated about \$14 million in P.L. 480 Title III monetized funds, jointly programmed with the Government of Honduras for several activities—most notably, food policy reform.

The USAID portfolio in Honduras is relatively well balanced among activities channeled through national government entities, municipal governments, NGOs, and the private sector. Allocations for NGO activities in some sectors might be considered low in comparison to other missions—for example in West Africa—but this likely reflects more effective governments in Latin America and the absence of a well developed and organized civil society to act as a counterpart in sectors such as democratic advocacy.

¹³ The primary impact of microenterprise lending is to minimize vulnerability. World Bank, *World Development Report 2000/2001*.

Environmental Activities

USAID's approach to environmental sustainability has emphasized global environmental concerns: biodiversity, sustainable urbanization, energy use, and local resource management. The evolving poverty reduction paradigm, however, seeks to integrate environmental concerns with sustainable livelihood strategies for the poor. Donors adopting this focus will differ significantly in their emphasis on environmental sustainability.¹⁴

Environmental activities in USAID Honduras's recent programming and strategy documents are focused on sustainable development. Neither the 2001 R4 document nor the proposed strategy for FY 2004–08 makes an explicit linkage between such activities and the livelihood of poor households. A reference to job creation is an implicit linkage.

Activities under the environmental portfolio may be of more than proportional benefit to the poor. Poor families are more likely to live in environmentally threatened areas and locations highly vulnerable to natural disasters. The results framework, however, does not make clear the extent to which activities are targeted to poor communities.

Indirect vs. Direct Approaches

Overview

The distinction between indirect and direct approaches to combating poverty was defined by Jagdish Bhagwati: the indirect approach uses resources to accelerate growth and raise the living standards of the poor, creating income and consumption in the process. By contrast, the direct route provides consumption through public expenditures on minimum needs-oriented education, housing, nutritional supplements, and health.¹⁵ This distinction is similar to that between poverty reduction and poverty alleviation; in both cases, the dividing line between the two concepts may be blurred.¹⁶

¹⁴ Salinger and Stryker 2001.

¹⁵ Jagdish Bhagwati, "Poverty and Public Policy," *World Development*, 16, 5 (1988), 539.

¹⁶ Direct expenditures on education, for example, are at least in part investments in human capital that indirectly accelerate economic growth. Indirect, growth-promoting investments in rural roads would be considered as direct benefits by farmers who live along such roads.

USAID's portfolio in Honduras includes substantial indirect activities that promote policy and institutional reform. These are strongly supported by program documentation giving priority to poverty reduction measures that stimulate long-term economic growth. However, the largest share of the mission's non-Mitch resources was designated for health programs focused on direct delivery of services to poor people. Nevertheless, several Government of Honduras officials told the evaluation team that USAID's indirect programs have had more impact than its direct programs.

Health and Education

While the health portfolio is mostly focused on direct delivery of services to poor people, USAID also supports important work in policy reform. About 5 percent of its annual health budget is devoted to policy initiatives focusing on the decentralization of the Ministry of Health, primary and preventive healthcare, and reform of a regressive user fee system that penalizes the rural poor.¹⁷

Some policy reform progress has been made, but the unfinished agenda is long. While open to the idea of decentralization to the municipal level, the Ministry of Health continues to support a bloated headquarters staff who perpetuate a "top-down" delivery system. The ministry still favors secondary and tertiary curative care over preventive and primary healthcare measures that would reduce the load on higher-level health facilities. Few resources are left for the smaller primary care health units, despite evidence that even the poorest population segments would pay more for good quality services. Another problem is a 1997 law guaranteeing steep annual salary increases. It permitted Ministry of Health personnel costs to grow from 38 percent of the total budget in 1996 to 61 percent in 2000, a proportion that will continue to increase if the demands of doctors' and nurses' unions are met.

Decentralization and more reliance on the private sector would allow the Ministry of Health to focus more on setting policy and developing regulations

¹⁷ John L. Fiedler and Javier Suazo, "Ministry of Health User Fees, Equity, and Decentralization: Lessons from Honduras," unpublished paper, 2001.



USAID supports the delivery of health services through Ministry of Health clinics such as this one. However progress in moving the Ministry of Health toward primary preventive care—which is more oriented towards poor people—has been very difficult.

while maintaining a safety net for the poorest Hondurans. One health policy professional estimated that up to 20 percent of the health portfolio could be devoted to health policy, but most agreed that a perceptible increase in political will is required to make such an investment worthwhile.

When the political will to adopt policy reform is weak but aid funding is abundant, USAID officers focus on service delivery, especially when development results must be quantified and measured annually. As one senior officer stated, “We have so much money available for health programs that we use it on service delivery. Instead, we need to improve how the system functions. But you don’t need policy changes to achieve your results when you can finance it all. When you have fewer resources, you look for levers; when you have lots of money, you do direct service delivery.”

In response to an improved climate for reform, USAID’s education portfolio is gradually shifting from financing service delivery to supporting the development of new curricula based on revised educational standards as well as other quality reforms.

In the past, USAID provided participant training—overseas scholarships—to young Hondurans who would assume policymaking positions in government. This kind of training is an important indirect program that donors can support in coun-

tries that have not yet developed the political will to adopt important policy reforms.¹⁸ However, USAID Honduras decreased funding for scholarships due to budget cuts in the bilateral program in the mid-1990s.¹⁹ The evaluation team noted that several young Hondurans in key policymaking positions in the government were graduates of USAID’s program. One of them said, “The USAID participant scholarship program in the 1980s and early 1990s was very important—I know a mountain of people who have U.S. master’s degrees and are now in decisionmaking positions. Why was this program stopped?”

Economic Growth

The policy component of the mission’s economic growth program was conceived in 1994 to provide technical assistance that would help the Honduran government understand the importance of macroeconomic policy reform and structural adjustment, and how policy reform can improve economic performance and reduce poverty. USAID support was made available in response to a perceived reduction in technical assistance provided as part of the conditionality requirements of IMF and World Bank loans.

The program supported a policy analysis unit in the government, carried out studies, and provided technical advice across a broad range of topics in monetary, exchange-rate, and fiscal policy; labor market policy; trade policy; and establishing an outward-oriented investment climate. Other policy areas tackled by the program included financial market regulation, investment incentives, national income accounts, agriculture (land titling), mining, tourism, and light manufacturing. The program also assisted the development of the hurricane reconstruction plan and the PRSP. Government of Honduras officials praised its high quality and timely advice.

Despite this support, policy and institutional reforms are incomplete in key areas. The appreciation of the real effective exchange rate needs to be

¹⁸ World Bank, *Assessing Aid: What Works, What Doesn’t, and Why* (New York: Oxford University Press for the World Bank, 1998).

¹⁹ In July 1996, USAID substantially reduced the Agency-wide number of education officers.

halted to avoid further adverse effects on exports. Increasing competitiveness requires financial sector reforms, including strengthening bank supervision and prudential regulation, reducing inefficiencies in bank operations, improving the investment climate for foreign banks, and promoting bank mergers. Despite significant progress in reducing tariffs, there is scope for further lowering trade barriers and eliminating discretionary actions such as embargoes on basic grains exports and nontariff obstacles to imports. Reform of restrictive laws and regulations limiting part-time work and dismissal of workers would encourage more investment.

Other key reform areas for accelerating economic growth, and therefore poverty reduction, include the following.

- *Reduction of the fiscal deficit*—The greatest need is for a sound public sector salary policy that will slow the unsustainable rates of increase of the last five years, particularly for teachers and medical professionals. Improved tax administration and a reduction in the number of exemptions are the most promising ways to increase revenues.
- *Modernization of the state*—The World Bank and the Inter-American Development Bank have been supporting reforms in this area, but progress has been slow. Problems such as those in the Ministry of Health are widespread: government ministries and agencies remain generally overstuffed, inefficient, and lacking in managerial, administrative, and technical skills. Cumbersome administrative procedures add to firms' transaction costs.
- *Social security reform*—Honduras's various public pension schemes are either technically bankrupt or moving in that direction. Legalization and proper supervision of private pension schemes would promote more savings and strengthen the country's weak capital markets.
- *Privatization*—Honduras's public enterprises are inefficient and the government's fiscal problem severely limits needed investments in infra-

structure, especially electric power, telecommunications, and ports. Improvement of infrastructure will lower transaction costs for those producing for domestic and export markets and accelerate economic growth.

- *The maquila sector*—The rapid growth of this sector since 1990 has been beneficial, but a long-term strategy is needed to transform it into a manufacturing sector that makes greater use of skilled labor, locally produced raw materials, and other inputs.

Democratic Governance

The establishment of a credible and reliable rule of law was consistently cited by respondents as one of the most urgent and necessary development goals for Honduras. USAID was universally recognized as having played the most prominent and influential role in the sector. It introduced the administration of justice as a public policy issue, one that eventually aroused the interest and involvement of other donors.

As in the rest of Latin America, the democratic governance program in Honduras originated out of concern for human rights, crime, corruption, and problems related to the transfer of political authority from military to civilian regimes. The program therefore focuses on political and human rights, legal and judicial reform, and the criminal process. Poverty is not its focal point; neither are the legal institutions that support the market.

In spite of modest funding levels, the program is having a substantial impact. In particular, USAID-supported activities promoting long-term legal and judicial reform are of great indirect benefit to the poor—those primarily harmed by a legal system that restricts economic growth opportunities and that powerful elites manipulate to their advantage. The interests of the poor are served by increasing judicial independence. They also benefit from improving the operation of the system—including the reform of procedures that allow them to be disproportionately punished for criminal infractions.

The lack of a predictable, reliable, and transparent

justice system as a whole (an enabling environment) is perceived as a serious deterrent to investment and economic growth in Honduras. The mission has done good long-term work on broad systemic reforms, primarily in the criminal arena. Much of this experience and expertise might be applied to the civil realm to promote transparency, civil procedural reforms, and specific rule-of-law reforms relating to investment and growth—such as those affecting property rights (land tenure and intellectual property) and contract enforcement.

An Unfinished Agenda

Why should USAID be concerned with policy issues? USAID is the largest bilateral donor in Honduras and plays a leading role in donor coordination. Unlike other donors, USAID has maintained its strategic emphasis on broad-based sustainable growth rather than adopting the narrower goal of poverty reduction. One could say that USAID's development-strategy "niche" is concern with the enabling environment for poverty reduction and economic growth rather than poverty reduction per se. Yet the allocation of portfolio monies to economic growth and policy reform has been proportionately less every year. To a large extent, this has happened because earmarks push USAID toward poverty alleviation programs rather than sustainable development.

Some believe that the political will for policy reform is weak in Honduras and that no one reads the policy papers produced under USAID's policy reform project. However, a recent World Bank document recommends that donors in countries like Honduras should concentrate on activities that might support reform in the long run. These include overseas scholarships, dissemination of ideas about policy reform and development, and stimulation of debate in civil society.²⁰ The now-discontinued USAID participant training program produced positive results. The mission's more recent efforts to strengthen civil society's ability to exert pressure for government transparency should also have high payoffs. In summary, the case for providing greater support for policy reform efforts is strong.

The Issue of Earmarks

Despite the prominence given in strategy documents to economic growth, since 1995 USAID Honduras's program allocations have progressively decreased in this area and increased in health, population, and education (Table 4). Since 1999, the increase in the health portfolio has been driven by earmarks for child survival and disease activities. Currently, over half the mission's resources are allocated to the direct delivery of health and education services to poor people. Economic growth and policy reform activities have not only decreased, but over half the economic growth monies have gone to microenterprise earmarks since 1999.

Earmarking is also a concern within the health and education sectors. In its 2002 annual report, USAID Honduras was worried that increased funding for HIV/AIDS, driven by congressional earmarks, would result in major cuts in child survival and population funding. This reduction threatened to require USAID to reduce its support for key components of its successful maternal and child health and family planning programs, as well as its support for health reforms that would most benefit poor people.

Although Honduras has about half of the HIV/AIDS cases in Central America, mission officers expressed concern about the country's absorptive capacity for HIV/AIDS funds, including the \$40.4 million (for five years) allocated by the Global AIDS Fund. Concerns were also expressed that additional HIV/AIDS earmarks made it difficult to meet the growing needs of the mission's regular family planning and child survival programs.

One senior US official said

Earmarks are a terrible hindrance. I strongly support USAID family planning, but historically we have been flooded with that kind of money. The best contraceptive that I know of is education for young women. But the only way you can get Congress to pass the foreign aid bill, which is very unpopular, is to permit them to put in their pet project. If I had two dollars to invest in Honduras, I would put one dollar in education and one dollar in rule of law.

²⁰ World Bank, *Assessing Aid*, 1998.

Table 4. Congressional Earmarks, 1995–2002. Allocations to Economic Growth (EG); Population, Health, Nutrition, and Education (PHNE); and Child Survival & Disease (CSD)

	1995	1996	1997	1998	1999	2000	2001	2002
Economic Growth	19,285	16,567	5,922	4,832	3,790	6,489	4,310	4,833
PHNE	9,320	10,071	13,338	12,338	8,758	14,474	12,016	9,412
CSD	–	–	–	–	6,540	7,250	8,440	8,800
Total PHNE	9,320	10,071	13,338	12,338	15,298	21,724	20,456	18,212
Total EG & PHNE	28,605	26,638	19,260	17,170	19,088	28,213	24,766	23,045

Source: USAID congressional presentations

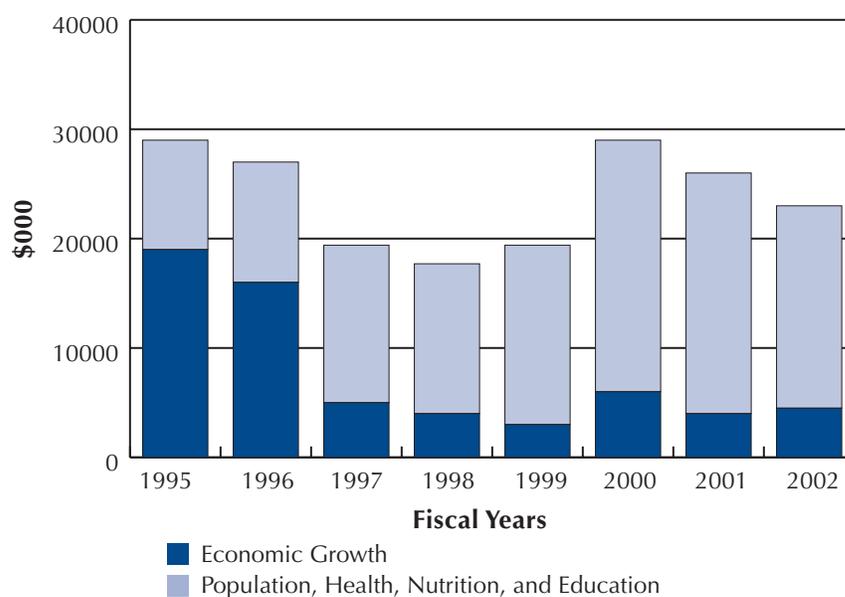
The Results Management System

Besides the system of earmarks, another problem contributing to USAID’s unwillingness to devote more funding for policy reform is the reporting requirement under the “management for results” system adopted by the Agency in 1996. Under this system, USAID project managers and program officers need to provide quantifiable measurements of results from project and program activities on a six-month or yearly basis.

Policy Coherence

U.S. trade policies are in less conflict with development goals in Honduras than is the case in other countries. Honduras benefits from preferential access to the U.S. market under the Caribbean Basin Initiative and NAFTA-parity legislation. Nevertheless, a few important Honduran products—notably sugar—do not enjoy these benefits. More significant in their impact on the Honduran economy are the large subsidies received by U.S. farmers. These subsidies tend to depress Honduran prices of basic grains and other commodities. While poor urban households in Honduras tend to benefit from these price effects, the opposite is true of the poor rural households who grow a large share of the country’s basic grains. U.S. food aid programs tend to have similar effects.

Congressional Earmarks, Economic Growth & PHNE—USAID Honduras



Source: Table 4

Lessons Learned

1 The PRSP Process and Donor Coordination

Donor coordination, especially strong in Honduras since Hurricane Mitch, can play a key role in facilitating policy reform, promoting structural change, and facilitating contacts between government and civil society. While the pace of policy reform and structural change in Honduras has not been fast, effective donor coordination through the G-15 mechanism has probably accelerated these processes and laid the groundwork for future gains by improving the quality of the public debate on these issues. The international donor community has effectively promoted contacts between government

and civil society, which have increased significantly since 1998.

In Honduras, USAID was often the lead donor in the PRSP process. In particular, the Agency played a key role in getting important issues of anticorruption and decentralization into the document. Important factors in this success included the leadership of individuals in the U.S. country team and the donor community, the impact of the special circumstances of hurricane reconstruction on the preparation of the PRSP, and the willingness of the Honduran government to engage in a collaborative dialogue with donors. Whether these circumstances will remain favorable is not clear. The effectiveness of donor coordination is not constant over time within any particular country and often depends upon particular individuals. For example, most survey respondents strongly felt that the departure of the U.S. ambassador in September 2002 would create a major leadership void in the donor community. Hurricane Mitch reconstruction activities were winding down and some members of the donor community were uncertain about the commitment to donor coordination and civil society participation by the new Honduran administration that took office in January 2002. USAID—and the U.S. foreign policy community generally—should recognize the importance of effective donor coordination and should strive to maintain its recent high level.

2 Poverty Reduction vs. Poverty Alleviation

Since 1996, USAID Honduras has had a strong focus on poverty reduction achieved by economic growth. The balance appeared to be good between direct delivery of services and indirect programs supporting the enabling environment for economic growth. However, in terms of actual dollars spent over the 1995–2002 period, the mission's portfolio (excluding hurricane reconstruction) evolved into a program heavily oriented toward social service delivery. Fewer aid dollars supported economic growth. Half the economic growth monies went to microenterprise support—most of which represents poverty alleviation rather than poverty reduction. One might say that USAID's approach to poverty reduction looks better on paper than in practice, since issues of economic policy reform have taken a back seat.

USAID Officers Comment on Policy Reform

I can't give you results in one year. USAID is not geared for policy reforms. How can USAID balance long-term work with policy reform with our short-term preoccupation with getting results every six months? What can I do when half of our economic growth money is earmarked for microenterprise, in a country facing so many institutional problems and a poor environment for economic growth?

Agriculture Officer

It's easier to measure numbers of microenterprise loans to poor people. What do we get out of policy reform? Over the short term, papers and discussions and not much else. As indicators, these don't look good in the R4.

Program Officer

In order to maintain political momentum of a policy project in USAID, you have to have accomplished a central objective or a major achievement, like 'we destroyed the high-government-wage regulations' or 'we drove down interest rates.' Otherwise, you end up with 20 different things that you have done, like seminars on this and policy papers on that; but all of them don't add up to much in the current results-reporting scheme.

USAID Contractor

Two main factors brought about this change: congressional earmarks and the results management approach. Over the last five years, earmarks for child survival and disease have driven the increase in allocations to health and population activities. Because the results management approach requires measurable, quantifiable indicators every six months or every year, officers are encouraged to design projects with short-term, measurable results. The results of longer-term policy reform programs are more difficult to measure. Sustainability and policy reform issues in the health sector also received short shrift.

Other factors may have contributed. One was the adoption of what was largely a poverty alleviation approach in the LAC Bureau during the Clinton administration.²¹ Another was the Agency-wide reduction in the number of economic growth and

²¹ Daniel J. Plunkett and Lynn Salinger, *A Case Study of the United States Agency for International Development, DAC Informal Network on Poverty Reduction Scoping Study* (Cambridge, MA: Associates for International Resources and Development, January 1999), 21–22; USAID/LAC, *FY 99 Trends Analysis: Economic Growth Area* (Washington, DC: USAID, June 1999).

education officers. Further, USAID’s level of concern with policy reform in Honduras may have been outstripped by the apparent increase of such structural problems as increased crime and the failure to confront the government wage problem.

3 Tracking Poverty Indicators

The Honduran experience of the last decade illustrates the importance of regarding poverty as multi-dimensional. Though income-based poverty indicators showed little improvement over this period, some social indicators showed significant gains, especially those for health status and access to potable water and sanitation facilities. These social indicators reveal an improvement in the human capital of poor Honduran households, and thus their ability to achieve higher income levels. Over the long term, greater improvements in education indicators—including those that reflect quality—will be especially important for poverty reduction in Honduras.

USAID could benefit by being more explicit about how its activities in Honduras contribute to poverty reduction. One way to do this is to select indicators that more directly measure the various dimensions of poverty and to track comprehensive indicators such as the income-based incidence of poverty. Another approach to better poverty tracking is to include an “impact on poverty” section in each SO narrative in R4 documents and related reports.

RELATED PUBLICATIONS

Evaluation Briefs on USAID’s Approach to Poverty Reduction

Honduras (PN-ACR-351)
Mali (PN-ACR-352)
Romania (PN-ACR-353)
Uganda (PN-ACR-354)

PPC Evaluation Working Papers on USAID’s Approach to Poverty Reduction

Honduras (PN-ACR-481)
Mali (PN-ACR-482)
Uganda (PN-ACR-483)

Evaluation Briefs provide summaries of key findings. *Evaluation Working Papers* provide additional background information and data.

4 Income Distribution and Poverty Reduction

The Honduran case study supports recent findings that poverty reduction through macroeconomic economic growth is more difficult the greater the initial inequality in the distribution of income. Accordingly, any long-term poverty reduction strategy should give high priority to targeted activities that strengthen the human capital of poor households, increase their access to productive assets, and provide infrastructure that improves their access to markets and lowers their transaction costs. Donor support for such activities would enhance the effectiveness of economic growth in reducing poverty.

About this publication: IBI–International Business Initiatives furnished editorial and production assistance for this publication. More detailed data and analysis are available in this publication’s companion piece, which is listed in the box above.

To order copies or download: These documents can be ordered from USAID’s Development Experience Clearinghouse (DEC). To download, go to www.dec.org and enter PN-ACR-351 as the document identification number in the search box. The DEC may also be contacted at 1611 N. Kent St., Ste. 200, Arlington, VA 22209; tel 703-351-4006; fax 703-351-4039; email docorder@dec.cdie.org.

Photo credits: Photo credits: Page 5, USAID; Page 9, USAID; Page 10, Frank Spangler, World View Images; Page 15, David Magurian, Inter-American Development Bank.